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TAGS: ENRG EAGR SENV EINV PGOV TBIO MZ
SUBJECT: BIOFUELS POTENTIAL ATTRACTS INTERNATIONAL
INVESTMENT TO MOZAMBIQUE

¶1. Summary: Interest in bioenergy development in Mozambique is increasing rapidly. The country has significant tracts of undeveloped land and a climate conducive to biofuel crops. Mozambique participates in trade regimes with the European Union and the United States that could provide preferential treatment for Mozambican biofuels. However, drought, food security challenges, and infrastructure problems could hinder growth. In response, the GRM is developing a national biofuels strategy to assure sustainable economic growth and equitable use of natural resources to ensure the benefits from the industry are broad-based. International interest is concrete, with several major development agreements, including one for $510 million, signed in recent months. As Mozambique and Brazil recently signed a cooperation agreement on biofuels, we believe that Mozambique would be an excellent candidate for further USG-Brazil cooperation on biofuels production. End Summary.

Potential Supply

¶2. Mozambique has 36 million hectares of arable land, but currently only 9% of that land is under cultivation. With a climate similar to Brazil's, many biofuel sources grow easily, including sugar cane, jatropha, sorghum, sunflowers, palms, cassava and coconuts. In July 2007 the GRM released a study by the International Energy Agency which predicts that Mozambique could reach an annually sustainable biomass production of 6.7exajoules (the equivalent of 1 billion barrels of oil a year) using strict sustainability criteria which, among other things, ensures the protection of forests and keeping biofuels from impacting on food production. Claudio James, an engineer with the state-owned oil company Petromoc, told Poloff that, theoretically, Mozambique could produce enough biodiesel to supply the entire country within 48 months.

Potential Demand

¶3. At the same time that Mozambique's bioenergy resources are being identified, opportunities for biofuels sale in international markets are opening. The European Union has preferential trade agreements with Least Developed Countries, including Mozambique, under its Everything But Arms Initiative (EBA), enabling biofuels from Mozambique to enter

the European market duty and quota free. Opportunities exist for Mozambican biofuels to preferentially enter the U.S. market without the ad valorem duty applied under the African Growth and Opportunity Act (AGOA).

Potential Obstacles

¶4. The areas of Mozambique most frequently mentioned for biofuels generation are areas that also suffer from drought. Farmers on the lower Limpopo River have already expressed concern that there will not be enough water both for proposed sugar cane plantations upstream and for their own needs. In addition, Mozambique still suffers from a lack of physical infrastructure to bring biofuel crops to market. Finally, international observers note that if farmers shift from food production to production of biofuels, additional food shortages could occur in a country that is already highly dependent on international food aid.

GRM Developing Biofuels Strategy

¶5. As the scale of bioenergy potential in Mozambique has become apparent, the GRM has recognized a need for an overall strategy and policy for addressing bioenergy. In June 2007 the GRM announced a two-phased effort by an intra-Ministerial committee to establish the policy. During a recent courtesy call, the Minister of Agriculture Erasmo Muhate told the Charge and Regional Agricultural Counselor that, as requests to develop biofuels concessions of over 5 million hectares

had arrived on his desk since January, the GRM decided to delay granting any further concessions until the review is finished. He indicated that Phase I is a technical assessment of economic, social and environmental sustainability including evaluation of the potential market, identification of different feed stocks, competitive production costs and identification of key issues. The Minister said Phase II will create an implementation strategy - which currently remains in draft form. The policy will address social and environmental dimensions, and assist the GRM in policy implementation with all relevant stakeholders.

COMMENT

¶6. With a conducive climate, plenty of available arable land, and the beneficiary of favorable trade arrangements, Mozambique is preparing to become an active player in the biofuels market. While some rush to produce biomass, if the concomitant processing plants are not built, roads cannot handle truck traffic and no local market exists, farmers may find themselves overextended. Ironically, the race to bioenergy could result in unintended consequences and potentially damage the agriculture sector if not carefully planned. In this light, the GRM's decision to craft a national strategy to ensure coherent policies and broad-based growth is especially prescient. The GRM is open to increased USG engagement on this issue. As Mozambique and Brazil recently signed a cooperation agreement on biofuels, we believe that Mozambique would be an excellent candidate for further USG-Brazil cooperation on biofuels production. END COMMENT.

Annex: Int'l Biofuels Commitments in Mozambique

¶7. Recent commitments by numerous international entities to invest in the development of bioenergy in Mozambique include:

- In August 2007, Mozambique and Brazil signed a Memorandum of Understanding which established an action plan to be drafted over the following 180 days, aimed at studying local conditions and at transferring technologies and scientific expertise on renewable bio-based fuels as well as training Mozambican engineers and technicians and creation of a framework to help Mozambique create an internal and export-oriented market for biofuels. The goal of the MOU is to replicate Brazil's sustainable biofuels production model in Africa.

- In August, Vancouver-based Energem Resources, a natural resources company listed on the Toronto Stock Exchange, announced that it had acquired a 70% controlling interest at a cost of $5.5M in a jatropha based biodiesel venture in Mozambique. The enterprise, now named Energem Renewable Energy Limited, has jatropha seedling nursery facilities and recently commenced clearing and planting 1000 hectares of land with jatropha. The project includes a three year research and development project to analyze the use of jatropha as a crop to produce oil for refining to biodiesel in Mozambique.

- In October, the GRM announced that London-based Central African Mining and Exploration Company (CAMEC) will invest $510M in Gaza province. The project is known as Procana and will produce 120M liters of ethanol a year from 30,000 hectares of sugar cane. In addition to producing ethanol for domestic and regional markets, the project is projected to produce electricity for local use, create 7,000 jobs and produce an annual income of over $440M beginning in 2010.

- In October, state-owned Petromoc signed a Memorandum of Understanding with the Indian company Rusni Distilleries and the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) for a feasibility study on the production of ethanol from sweet sorghum. Petromoc is looking to build a factory which would produce a million liters of ethanol per day. The distillery would be located in the central province of Sofala and would use sorghum raised by smallholder farmers

on an efficient and sustainable basis.

- In August, state-owned Petromoc announced it is partnering with Brazil's INM International, Sonipal Ltd and Aruangua Agro-Industrial to plant 45,000 hectares of jatropha which will be used to produce 226M liters of biodiesel a year. Petromoc, through a subsidiary Energias Alternativas Renovaveis Lda (ECOMOZ), is working on a smaller project which relies on coconut oil as basis to produce up to 40M liters of biodiesel per year. The plant is located in Inhambane Province.

- Commercial production of biodiesel from jatropha is set to begin in February 2008 in the Panda District of Inhambane province. The project is being implemented by ESV BIO AFRICA, a company consisting of Mozambican, South African and British interests. The company will build a processing plant which will produce 5000 liters per day; the plant is to be in operation by February 2008. ESV BIO AFRICA established its operation in Inhambane in August 2006 and, to date, has invested $2M on expansion of the planting of jatropha.

- The Government of China and EMBRAPA, a Brazilian company and the world's leading research organization dealing with tropical agriculture, are offering a combined bioenergy package to Mozambique. EMBRAPA provides agronomic expertise; China invests in infrastructure (roads, rail, waterways) needed to bring products to market. The cooperation in Mozambique is part of China's $5B investment strategy for Southern Africa.

- British Petroleum (BP) recently created a biofuels division; one of the first countries it is evaluating for biofuels potential (initially growing sugar cane for export)

is Mozambique.

- The UK has a UK-Brazil-South Africa-Mozambique Biofuels taskforce working on solutions to regional issues using techniques identified in Brazil.
Chapman